

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Gladstone	County Delta
Fiscal Year End 03-31-06	Opinion Date 06-15-06	Date Audit Report Submitted to State 07-27-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

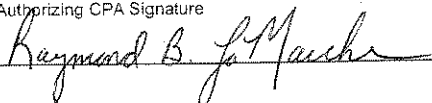
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-786-3111	
Street Address 901 Ludington Street		City Escanaba	State MI
Zip 49829			
Authorizing CPA Signature 	Printed Name Raymond B. LaMarche, CPA	License Number 1101025531	

CITY OF GLADSTONE, MICHIGAN

BASIC FINANCIAL STATEMENTS

MARCH 31, 2006

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Commission
City of Gladstone
Gladstone, Michigan 49837

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of and for the year ended March 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gladstone, Michigan's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of March 31, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2006, on our consideration of the City of Gladstone, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 14 and 69 through 72, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Michigan's basic financial statements. The combining nonmajor fund financial statements and the statistical table are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical table has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Anderson, Tackman & Company P.L.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

June 15, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Gladstone's financial performance provides an overview of the City's financial activities for the fiscal year ending March 31, 2006. Please read it in conjunction with the City's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City's net assets were reported at \$15,487,896. This is an increase of \$594,807 from March 31, 2005. This resulted from an increase in total assets of \$891,844 (or 4.93%) and an increase in liabilities of \$297,037 (9.33%). The increase in net assets resulted primarily from an increase in cash and equivalents of \$363,947 and an increase in receivables of \$258,217. Net assets for our business-type activities were \$10,250,804, an increase of \$603,845 from 2005, while net assets in our governmental activities were \$5,237,092, a decrease of \$9,038.
- The City's expenses for the year totaled \$7,984,219 an increase of \$102,155 (1.29%) over 2005. Revenues from all sources were \$8,579,026, an increase of \$1,313,125 (18.07%) from 2005.
- In the City's business type activities, total revenues were \$4,651,848 an increase of 25% over the previous year. Business-type activity revenues increased slightly as a percentage of total revenues to 54% from 51% the previous year.
- The wireless broadband service has been fully deployed in Gladstone and some outlying areas. Most City departments are now connected to high-speed Internet services. Many reports and forms are now transmitted through the Internet. In 2006, the fund had a \$45,121 operating loss, however, as the customer base continues to increase the fund should cash flow in the near future.
- In the current year the City created a new special revenue fund, the Solid Waste fund, to account for the activity related to the City's garbage collection.
- The General Fund finished the year with an increase, and ending fund balance of \$113,239. This was after revenues of \$2,487,278 compared to \$2,358,097 in 2005, and expenditures of \$2,633,549 compared to expenditures of \$2,850,958 in 2005.

USING THIS REPORT

This annual report consist of financial statements. The Statement of Net Assets and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

Reporting the City as a whole

Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about a city's finances in "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets as, the difference between assets and liabilities, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, state shared revenues, charges for services and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Electrical Departments, Land Development Fund, Gladstone Wireless Broadband and Economic Development Corporation are reported here.

The City also presents the Gladstone Housing Commission, a legally separate component unit, separately from the financial information of the City. A separately audited financial statement is available for the Housing Commission from their administrative offices.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's Major Funds begins on page 10. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that the Commission is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City’s services are reported in governmental funds which focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City’s general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other City programs and activities – such as the Equipment Fund.

The City as a Trustee

The City is the trustee, *or fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City’s fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 29. We exclude these funds from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The City as a Whole

The City's combined net assets increased by \$594,807.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities	
	2005	2006	2005	2006
Current and other assets	\$ 752,033	\$ 1,190,914	\$ 2,792,721	\$ 3,407,101
Capital assets (net)	6,661,377	6,590,291	7,869,407	7,779,076
Total Assets	<u>7,413,410</u>	<u>7,781,205</u>	<u>10,662,128</u>	<u>11,186,177</u>
Long-term debt outstanding	1,755,526	1,658,211	656,234	531,448
Other liabilities	411,754	885,902	358,935	403,925
Total Liabilities	<u>2,167,280</u>	<u>2,544,113</u>	<u>1,015,169</u>	<u>935,373</u>
Net Assets:				
Invested in capital assets, net of related debt	4,905,851	4,932,080	6,852,445	7,247,628
Restricted assets:				
Expendable	-	3,864	2,658	-
Nonexpendable	224,048	225,353	-	-
Unrestricted	116,231	75,795	2,791,856	3,003,176
Total net assets	<u>\$ 5,246,130</u>	<u>\$ 5,237,092</u>	<u>\$ 9,646,959</u>	<u>\$ 10,250,804</u>

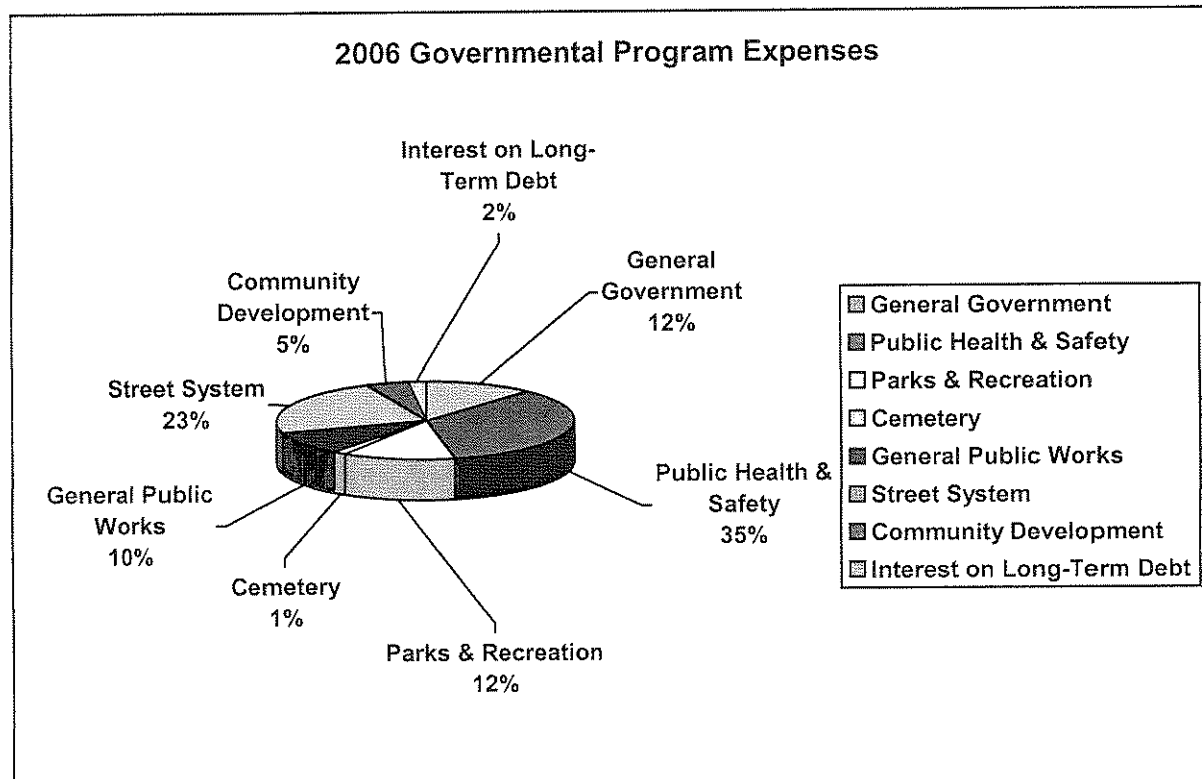
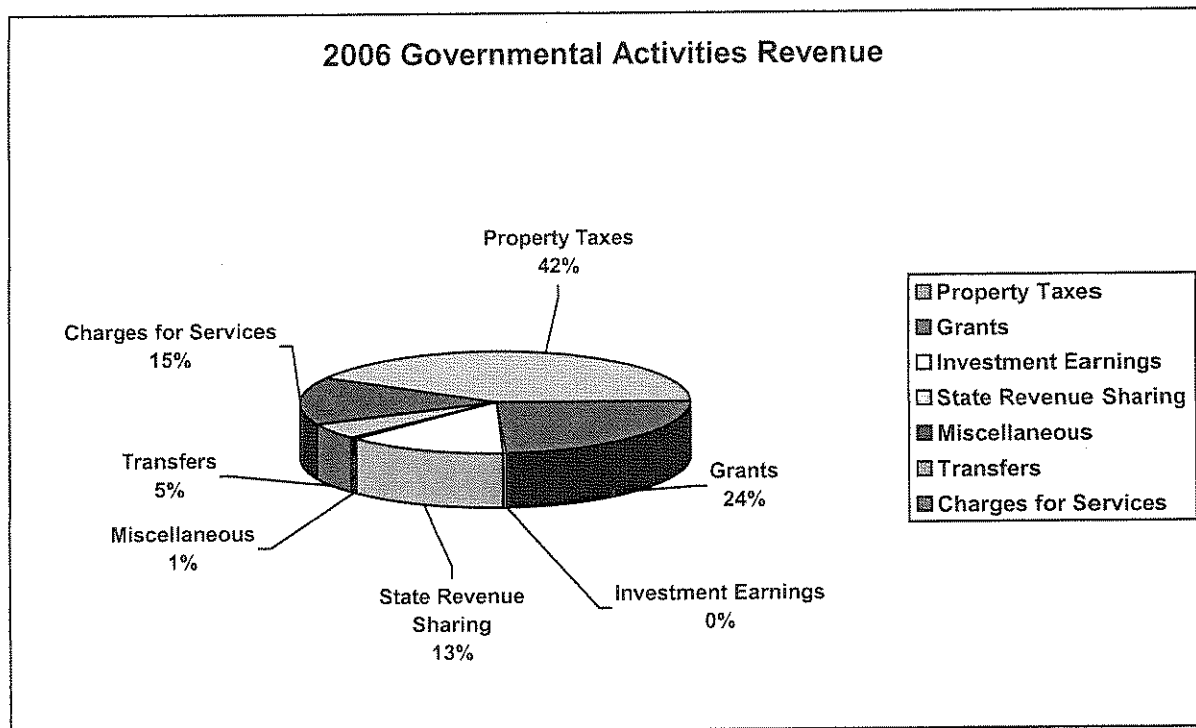
Net assets of the City's governmental activities stood at \$5,237,092, down from \$5,246,130 in 2005 (-.17%). Total of the governmental activities assets increased by just under 5%, but total liabilities increased by nearly 17%. The ratio of assets to liabilities fell from 3.42 in 2005 to 3.05 in 2006.

Net assets in our business-type activities stood at \$10,250,804, up from \$9,646,959 in 2005. Total assets increased to 11,186,177 from \$10,662,128 in 2005, while liabilities declined from \$1,015,169 in 2005 to \$935,373 in 2006 (-7.86%). Unrestricted net assets increased from \$2,791,856 to \$3,003,176, while the amount invested in capital assets (net of related debt) rose from \$6,852,445 in 2005 to \$7,247,628 in 2006. In summary, the net assets of the business lines became a little less liquid, but investments in infrastructure will pay dividends in the future.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities	
	2005	2006	2005	2006
Revenues:				
Program Revenues:				
Charges for services	\$ 549,013	\$ 618,820	\$ 3,413,388	\$ 4,416,424
Operating grants	475,563	492,848	-	-
Capital grants	124,878	496,640	237,268	160,703
General Revenues:				
Property taxes	1,609,639	1,724,207	-	-
State revenue sharing	568,059	556,290	-	-
Unrestricted grants	6,041	6,127	-	-
Unrestricted investment earnings	6,687	7,890	70,564	74,721
Miscellaneous	199,681	22,786	-	-
Total Revenues	<u>3,539,561</u>	<u>3,925,608</u>	<u>3,721,220</u>	<u>4,651,848</u>
Program Expenses:				
General government	742,851	497,506	-	-
Public health & safety	1,393,912	1,447,421	-	-
Parks & recreation	481,066	504,929	-	-
Cemetery	75,251	58,556	-	-
General public works	381,726	403,932	-	-
Street system	966,773	949,561	-	-
Community development	243,574	201,848	-	-
Interest on long-term debt	86,767	75,364	-	-
Electric	-	-	2,311,421	2,689,699
Wastewater	-	-	560,637	530,470
Water	-	-	508,670	507,993
Land development	-	-	43,636	23,461
Gladstone wireless	-	-	58,086	76,937
Economic development	-	-	27,694	16,543
Total Expenses	<u>4,371,920</u>	<u>4,139,117</u>	<u>3,510,144</u>	<u>3,845,103</u>
Excess (deficiency) before transfers and contributions	(832,359)	(213,509)	211,076	806,745
Transfers	252,161	202,900	(252,161)	(202,900)
Contributions to permanent fund	<u>5,120</u>	<u>1,571</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(575,078)	(9,038)	(41,085)	603,845
Net assets - beginning	<u>5,821,208</u>	<u>5,246,130</u>	<u>9,688,044</u>	<u>9,646,959</u>
Net assets - ending	<u>\$ 5,246,130</u>	<u>\$ 5,237,092</u>	<u>\$ 9,646,959</u>	<u>\$ 10,250,804</u>

Governmental Activities



The City's total revenues were \$8,579,026, up from \$7,265,901 in 2005 (an increase of 18.07%). The cost of all programs and services was \$7,984,219, up from \$7,882,064 in 2005 (an increase of 1.29%). For 2006, there was an excess of revenues over expenses of \$594,807, versus an excess of expenses over revenues of \$616,163 in 2005. The 1.29% increase in expenses is well below the rate of inflation for the year. The small increase in expenses was mainly due to cutting capital outlay from all budgets and requiring departments to cut an additional 3% across the board. Much of the large increases in revenue are due to grant funds and additional charges for services. The City has received about \$40,000 in additional revenue by charging the 1% allowable property tax administration fee. Further, the City received a \$150,000 grant for the construction of the new campground facility and \$173,390 in MSDHA rental program grants.

Governmental Activities

Revenues for the City's governmental activities totaled \$3,927,179, up 10.79% from \$3,544,631 in 2005. Expenses decreased by 5.32% (\$232,803) with the largest percentage decrease (33%) in general government. The 5.32% decrease in expense is due in large part to the cashing in of the Met Life Stock in the prior year and paying it back out to the MERS retirement plan.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

Table 3
Government Activities

	Total Cost of Services		Net Cost of Services	
	2005	2006	2005	2006
Public health & safety	\$ 1,393,912	\$ 1,447,421	\$ 1,192,945	\$ 1,090,226
Street systems	966,773	949,561	483,837	308,620
Parks & recreation	481,066	504,929	190,929	100,416
General public works	381,726	403,932	256,093	251,816
General government	742,851	497,506	742,851	497,506
Totals	<u>\$ 3,966,328</u>	<u>\$ 3,803,349</u>	<u>\$ 2,866,655</u>	<u>\$ 2,248,584</u>

Most of the governmental activity increases are due to rate of inflation. The main decrease in general government was the Met Life stock issue in the prior year.

Business-Type Activities

Revenues for the City's business-type activities totaled \$4,651,848, up from \$3,721,220 in 2005 (+25%). The primary reason for the increase was due to increased utility rates for the water, waste water and electric utilities which were in effect August 2005. Business-type activity expenses increased by 9.5% and can be attributed in large part to inflation as well as an increase in the cost of purchased power for the electric utility.

THE CITY'S FUNDS

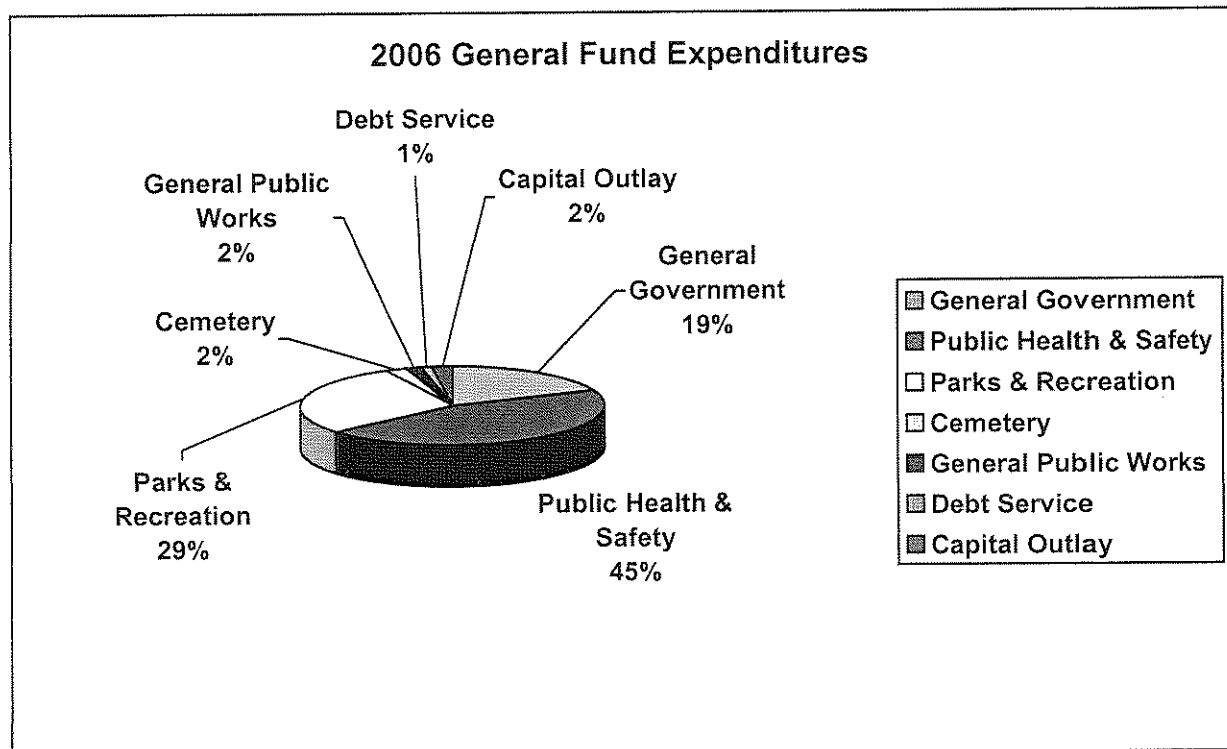
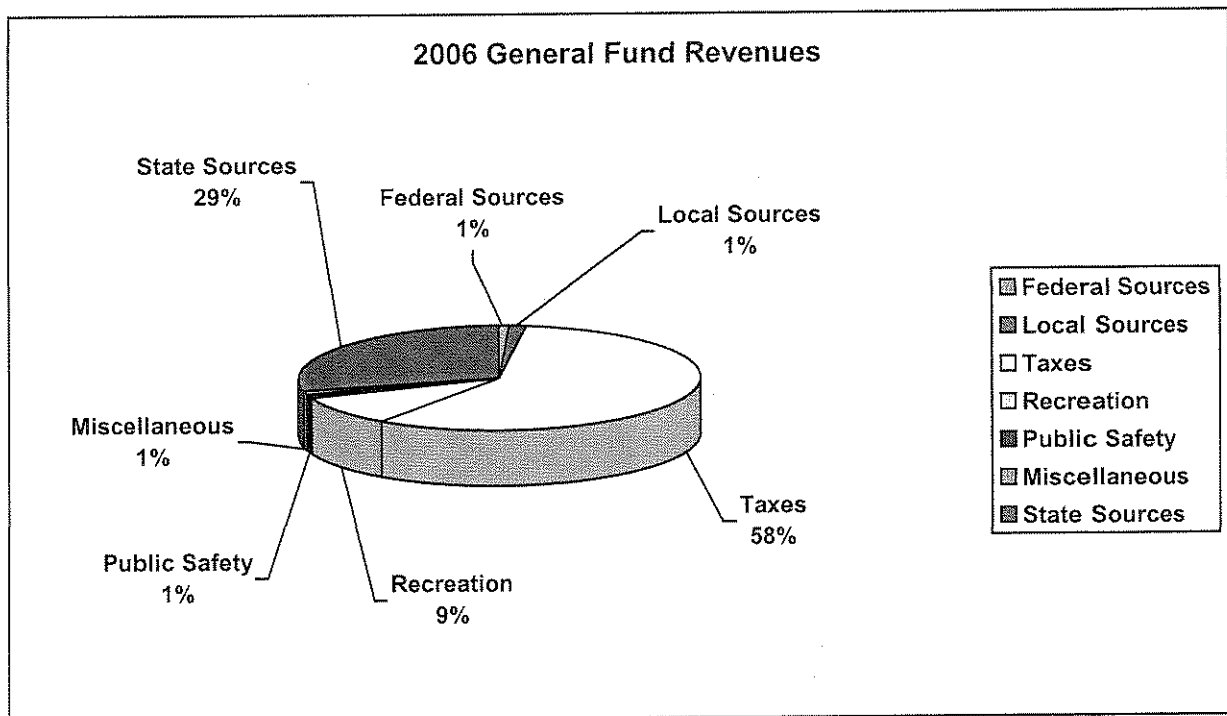
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$732,440, an increase of \$79,471 from 2005. This was due primarily to an increase in assets of \$348,227, offset by an increase in liabilities of \$268,756.

General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenses. The final revenue number of \$2,888,502 was 3% under the amended budget. Expenditures varied more from the revised estimates due mainly to expenses associated with the campground facility that was unbudgeted. The final expenditure number of \$2,789,363 was 8% above the revised expenditure estimate of \$2,583,490. Total revenue exceeded total expenses by \$99,139 for the year.

The final revenue number was \$495,725 more than 2005 and expenditures were \$84,603 lower than 2005. On the revenue side, the General Fund increase is due to an additional \$40,000 from the property tax administration fee, \$300,000 in loan and grant proceeds for the campground building and a 38% increase in payment-in-lieu-of-taxes from the utility funds. On the expense side, the decrease can be contributed to creating a separate fund for solid waste, hence removing the expenditures from the General Fund, cutting all non-essential capital outlay and further reducing departmental budgets by 3% across the board.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006, the City had \$14,369,367, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was down from \$14,530,784 in 2005. (See table 4 below)

Table 4
Capital Assets at Year-End
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities	
	2005	2006	2005	2006
Land	\$ 1,601,627	\$ 1,601,627	\$ 350,821	\$ 316,799
Construction in progress	-	-	-	26,193
Land Improvements	84,059	82,354	-	-
Buildings	1,575,030	1,860,693	166,217	159,003
Machinery & Equipment	940,260	842,395	230,242	204,830
Infrastructure - Road System	2,275,262	1,918,243	-	-
Infrastructure - Other	185,139	284,979	-	-
Distribution/Collection System	-	-	7,122,127	7,072,251
Total	<u>\$ 6,661,377</u>	<u>\$ 6,590,291</u>	<u>\$ 7,869,407</u>	<u>\$ 7,779,076</u>

DEBT

At year-end the City had \$2,189,659 in bonds and notes outstanding. This is a decrease of \$222,101 (9.2%) in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$449,659 is well below the 10% limit of \$10,508,470.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2005	2006	2005	2006	2004	2005
General obligation bonds/ notes(backed by the City)	380,526	428,211	26,234	21,448	\$ 406,760	\$ 449,659
Revenue bonds and notes (backed by specific tax and fee revenues)	1,375,000	1,230,000	630,000	510,000	2,005,000	1,740,000
Totals	<u>\$ 1,755,526</u>	<u>\$ 1,658,211</u>	<u>\$ 656,234</u>	<u>\$ 531,448</u>	<u>\$ 2,411,760</u>	<u>\$ 2,189,659</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. Most Michigan municipalities, including Gladstone are still struggling in the State's weak economic environment, the cost of doing business is still increasing sometimes beyond our control. Gladstone takes pride in being the "year round playground" and we will continue to maintain all the services currently offered to our residents in the most efficient, cost-effective manner to continue to make our City the community of choice in the Upper Peninsula.

In general government the City has taken the necessary steps to ensure long-term fiscal health. Recently two positions were eliminated from the budget and should result in over \$100,000 in savings annually. We have also begun charging a cable television franchise fee that will create \$56,000 more in revenue. It appears that property tax revenue will increase from \$1.6 million in 2005 to \$1.7 million in 2006. At the same time we have reduced administrative fees on the other departments to decrease reliance on business type activities and to reduce our impact on future rate increases. The downward trend in State Revenue Sharing is still of great concern for the City, although the State continues to project increases, the amount of revenue sharing was 7% below state estimates in 2005.

Business type activities budgets should continue to improve, the negative cash balance has been eliminated in the wastewater fund, the deficit has been dramatically reduced in the water fund and the new rate structure in the electric utility will shore up the cash balance. Recently the wastewater treatment plant began accepting waste from Masonville Township, this additional revenue has eliminated the deficit within the Wastewater Fund and should help stabilize future rate increases. The City Commission has already approved rates for the 2007 fiscal year; the additional revenue generated by these increases will only further improve the fiscal condition of all enterprise funds.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Gladstone City Hall, 1100 Delta Ave, P.O. Box 32, Gladstone, Michigan, 49837.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET ASSETS
March 31, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 285,199	\$ 1,264,612	\$ 1,549,811	\$ 152,041
Receivables :				
Accounts	179,283	-	179,283	41,210
Utilities	-	669,211	669,211	-
Special assessments	28,738	33,703	62,441	-
Notes	41,961	16,695	58,656	-
Interest	2,079	2,991	5,070	-
Miscellaneous	24,921	75,068	99,989	-
Due from other governmental units	302,890	-	302,890	-
Prepaid expense	-	-	-	15,855
Inventory	3,512	365,218	368,730	-
Total current assets	<u>868,583</u>	<u>2,427,498</u>	<u>3,296,081</u>	<u>209,106</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	225,049	64,000	289,049	-
Investments	-	450,394	450,394	130,770
Notes receivable	97,282	255,834	353,116	-
Internal balances	-	182,337	182,337	-
Bond issuance costs	-	27,038	27,038	-
Capital assets	17,559,644	15,851,429	33,411,073	4,246,105
Accumulated depreciation	(10,969,353)	(8,072,353)	(19,041,706)	(2,619,821)
Total noncurrent assets	<u>6,912,622</u>	<u>8,758,679</u>	<u>15,671,301</u>	<u>1,757,054</u>
Total assets	<u>\$ 7,781,205</u>	<u>\$ 11,186,177</u>	<u>\$ 18,967,382</u>	<u>\$ 1,966,160</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 282,773	\$ 265,352	\$ 548,125	\$ 37,175
Accrued interest	30,989	2,563	33,552	-
Customer deposits	-	59,198	59,198	-
Deferred revenue	77,906	-	77,906	-
Other liabilities	11,082	-	11,082	39,957
Compensated absences	31,779	19,202	50,981	-
Bonds payable	150,000	125,000	275,000	-
Notes payable	141,923	5,051	146,974	-
Total current liabilities	<u>726,452</u>	<u>476,366</u>	<u>1,202,818</u>	<u>77,132</u>
Noncurrent liabilities:				
Compensated absences	127,117	57,610	184,727	-
Due to other governmental units	141,919	-	141,919	-
Internal balances	182,337	-	182,337	-
Bonds payable	1,080,000	385,000	1,465,000	-
Notes payable	286,288	16,397	302,685	-
Total noncurrent liabilities	<u>1,817,661</u>	<u>459,007</u>	<u>2,276,668</u>	<u>-</u>
Total liabilities	<u>\$ 2,544,113</u>	<u>\$ 935,373</u>	<u>\$ 3,479,486</u>	<u>\$ 77,132</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 4,932,080	\$ 7,247,628	\$ 12,179,708	\$ 1,626,284
Restricted for:				
Expendable:				
Drug forfeiture	3,864	-	3,864	-
Nonexpendable:				
Cemetery perpetual care	225,353	-	225,353	-
Unrestricted	<u>75,795</u>	<u>3,003,176</u>	<u>3,078,971</u>	<u>262,744</u>
Total net assets	<u>\$ 5,237,092</u>	<u>\$ 10,250,804</u>	<u>\$ 15,487,896</u>	<u>\$ 1,889,028</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2006

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary governmental activities:								
Governmental activities:								
General government	\$ 497,506	\$ -	\$ -	\$ -	\$ (497,506)	\$ -	\$ (497,506)	\$ -
Public health and safety	1,447,421	117,827	33,152	206,216	(1,090,226)	-	(1,090,226)	-
Parks and recreation	504,929	253,313	-	151,200	(100,416)	-	(100,416)	-
Cemetery	58,556	26,667	-	-	(31,889)	-	(31,889)	-
General public works	403,932	152,116	-	-	(251,816)	-	(251,816)	-
Street system	949,561	59,215	459,696	122,030	(308,620)	-	(308,620)	-
Community development	201,848	9,682	-	17,194	(174,972)	-	(174,972)	-
Interest on long-term debt	75,364	-	-	-	(75,364)	-	(75,364)	-
Total governmental activities	4,139,116	618,820	492,848	496,640	(2,530,808)	-	(2,530,808)	-
Business-type activities:								
Electric utility	2,689,699	2,888,201	-	27,366	-	225,868	225,868	-
Waste water utility	530,470	908,433	-	55,448	-	433,411	433,411	-
Water utility	507,993	569,477	-	77,889	-	139,373	139,373	-
Land development	23,461	9,266	-	-	-	(14,195)	(14,195)	-
Economic development	16,543	9,231	-	-	-	(7,312)	(7,312)	-
Wireless broadband	76,937	31,816	-	-	-	(45,121)	(45,121)	-
Total business-type activities	3,845,103	4,416,424	-	160,703	-	732,024	732,024	-
Total primary government	\$ 7,984,219	\$ 5,035,244	\$ 492,848	\$ 657,343	(2,530,808)	732,024	(1,798,784)	-
Component unit:								
Housing commission	\$ 513,263	\$ 268,011	\$ 113,531	\$ 277,873	-	-	-	146,152
General revenues:								
Property taxes					1,724,207	-	1,724,207	-
State revenue sharing					556,290	-	556,290	-
Grants and contributions not restricted to specific programs					6,127	-	6,127	-
Contributions to permanent fund					1,570	-	1,570	-
Unrestricted investment earnings					7,890	74,721	82,611	6,787
Miscellaneous					22,786	-	22,786	105
Transfers					202,900	(202,900)	-	-
Total general revenues and transfers					2,521,770	(128,179)	2,393,591	6,892
Changes in net assets					(9,038)	603,845	594,807	153,044
Net assets - beginning					5,246,130	9,646,959	14,893,089	1,735,984
Net assets - ending					\$ 5,237,092	\$ 10,250,804	\$ 15,487,896	\$ 1,889,028

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ -
Unrestricted	179,106	69,043	24,558
Receivables:			
Accounts	155,277	1,173	-
Special assessments	10,130	2,668	15,940
Notes	-	-	-
Interest	1,166	51	-
Miscellaneous	22,175	-	2,533
Due from other funds	63,210	869	621
Due from other governmental units	104,940	55,630	22,602
Inventory	3,512	-	-
	<u>539,516</u>	<u>129,434</u>	<u>66,254</u>
Total assets	<u>\$ 539,516</u>	<u>\$ 129,434</u>	<u>\$ 66,254</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 201,218	\$ 2,944	\$ 92
Due to other funds	162,635	46,013	19,889
Due to other governmental units	-	-	-
Deferred revenue	51,342	-	-
Other liabilities	11,082	-	-
	<u>426,277</u>	<u>48,957</u>	<u>19,981</u>
Total liabilities	<u>426,277</u>	<u>48,957</u>	<u>19,981</u>
Fund balances:			
Reserved for:			
Inventory	3,512	-	-
Cemetery perpetual care	-	-	-
Drug forfeiture	3,864	-	-
Unreserved	105,863	80,477	46,273
Unreserved, reported in non-major:			
Special revenue funds	-	-	-
Debt service funds	-	-	-
	<u>113,239</u>	<u>80,477</u>	<u>46,273</u>
Total fund balances	<u>113,239</u>	<u>80,477</u>	<u>46,273</u>
Total liabilities and fund balances	<u>\$ 539,516</u>	<u>\$ 129,434</u>	<u>\$ 66,254</u>

See accompanying notes to financial statements.

<u>Revolving Loan</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 225,049	\$ 225,049
279,021	(8,924)	542,804
-	22,833	179,283
-	-	28,738
139,243	-	139,243
406	456	2,079
-	-	24,708
-	-	64,700
-	119,718	302,890
-	-	3,512
<u>\$ 418,670</u>	<u>\$ 359,132</u>	<u>\$ 1,513,006</u>
\$ 38	\$ 64,170	\$ 268,462
-	18,997	247,534
-	36,339	36,339
139,243	26,564	217,149
-	-	11,082
<u>139,281</u>	<u>146,070</u>	<u>780,566</u>
-	-	3,512
-	225,353	225,353
-	-	3,864
279,389	-	512,002
-	(13,377)	(13,377)
-	1,086	1,086
<u>279,389</u>	<u>213,062</u>	<u>732,440</u>
<u>\$ 418,670</u>	<u>\$ 359,132</u>	<u>\$ 1,513,006</u>

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2006

Total fund balances for governmental funds	\$ 732,440
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 1,601,627	
Land improvements	129,812	
Buildings	2,818,545	
Machinery and equipment	1,006,127	
Infrastructure - road system	9,764,337	
Infrastructure - other	319,359	
Accumulated depreciation	<u>(9,697,294)</u>	
Total capital assets		5,942,513

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

185,488

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (30,989)	
Bonds payable	(1,230,000)	
Notes payable	(237,127)	
Due to other governmental units	(105,580)	
Compensated absences	<u>(158,896)</u>	(1,762,592)

Deferred revenue reported as a liability on the balance sheet of the fund financial statements and has been recognized as revenue in the statement of activities have been removed from the statement of net assets.

139,243

Total net assets of governmental activities	<u><u>\$ 5,237,092</u></u>
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See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2006

	General Fund	Major Street	Local Street
REVENUES:			
Federal sources	\$ 19,127	\$ -	\$ -
State sources	712,417	315,278	144,418
Local sources	35,294	21,131	31,292
Taxes	1,437,397	-	-
Charges for services	-	-	-
Recreation	221,918	-	-
Public safety	33,370	-	-
Loan repayment	-	-	-
Lease income	-	-	-
Interest income	5,439	945	60
Miscellaneous	22,316	2,975	3,817
	<u>2,487,278</u>	<u>340,329</u>	<u>179,587</u>
Total revenues			
EXPENDITURES:			
General government	496,136	-	-
Public health and safety	1,183,448	-	-
Parks and recreation	766,401	-	-
Cemetery	57,928	-	-
General public works	44,789	-	-
Street system	-	302,021	270,527
Community development	-	-	-
Capital outlay	59,752	-	-
Debt service:			
Principal	21,704	-	-
Interest and other charges	3,391	-	-
	<u>2,633,549</u>	<u>302,021</u>	<u>270,527</u>
Total expenditures			
Excess revenues (expenditures)	<u>(146,271)</u>	<u>38,308</u>	<u>(90,940)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	253,452	40,000	144,850
Transfers out	(155,821)	(33,050)	(10,000)
Loan proceeds	150,000	-	-
	<u>247,631</u>	<u>6,950</u>	<u>134,850</u>
Total other financing sources (uses)			
Net changes in fund balances	101,360	45,258	43,910
Fund balances - beginning	<u>11,879</u>	<u>35,219</u>	<u>2,363</u>
Fund balances - ending	<u>\$ 113,239</u>	<u>\$ 80,477</u>	<u>\$ 46,273</u>

See accompanying notes to financial statements.

Revolving Loan	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 173,465	\$ 192,592
-	122,030	1,294,143
-	65,540	153,257
-	286,810	1,724,207
-	148,841	148,841
-	-	221,918
-	-	33,370
35,083	-	35,083
-	104,770	104,770
9,682	5,101	21,227
-	3,745	32,853
<u>44,765</u>	<u>910,302</u>	<u>3,962,261</u>
-	-	496,136
-	201,244	1,384,692
-	-	766,401
-	265	58,193
-	349,174	393,963
-	122,030	694,578
1,233	200,262	201,495
-	-	59,752
-	145,000	166,704
-	75,385	78,776
<u>1,233</u>	<u>1,093,360</u>	<u>4,300,690</u>
<u>43,532</u>	<u>(183,058)</u>	<u>(338,429)</u>
-	266,611	704,913
(4,800)	(233,342)	(437,013)
-	-	150,000
<u>(4,800)</u>	<u>33,269</u>	<u>417,900</u>
38,732	(149,789)	79,471
<u>240,657</u>	<u>362,851</u>	<u>652,969</u>
<u>\$ 279,389</u>	<u>\$ 213,062</u>	<u>\$ 732,440</u>

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2006

Net changes in fund balances - total governmental funds	\$ 79,471
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$648,131) exceeded depreciation expense (\$622,897).	25,234
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An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities.	(101,415)
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Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:		
Bond principal	145,000	
Note principal	21,704	166,704

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities.	(35,083)
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Proceeds from the issuance of long-term debt which is recorded as revenue in the fund financial statements, but is recorded as a liability in the Statement of Net Assets.	(150,000)
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Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	2,640	
Accrued interest on bonds	3,411	6,051
Changes in net assets of governmental activities		\$ (9,038)

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
March 31, 2006

	Gladstone Wireless	Electric Utility	Waste Water Utility	Water Utility
ASSETS				
Current assets:				
Cash and cash equivalents	\$ (21,915)	\$ 1,592,508	\$ 91,712	\$ (292,352)
Receivables:				
Utilities	2,364	488,075	93,910	84,862
Special assessments	-	-	20,883	12,820
Notes	-	-	-	-
Interest	-	2,484	507	-
Miscellaneous	-	14,336	8,820	51,912
Inventory	-	365,218	-	-
Total current assets	<u>(19,551)</u>	<u>2,462,621</u>	<u>215,832</u>	<u>(142,758)</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	30,500	33,500
Investments	-	450,394	-	-
Notes receivable	-	-	-	-
Due from other funds	-	404,568	993	993
Bond issuance costs	-	-	13,128	13,910
Capital assets	243,934	6,661,400	3,930,816	4,391,089
Less accumulated depreciation	<u>(49,906)</u>	<u>(2,863,124)</u>	<u>(2,116,973)</u>	<u>(2,959,046)</u>
Total noncurrent assets	<u>194,028</u>	<u>4,653,238</u>	<u>1,858,464</u>	<u>1,480,446</u>
Total assets	<u>\$ 174,477</u>	<u>\$ 7,115,859</u>	<u>\$ 2,074,296</u>	<u>\$ 1,337,688</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 2,950	\$ 232,934	\$ 3,237	\$ 5,247
Accrued interest	-	-	2,563	-
Customer deposits	-	59,198	-	-
Compensated absences	-	6,835	5,582	6,785
Bonds payable	-	-	60,000	65,000
Notes payable	-	-	5,051	-
Total current liabilities	<u>2,950</u>	<u>298,967</u>	<u>76,433</u>	<u>77,032</u>
Noncurrent liabilities:				
Due to other funds	128,393	-	-	-
Compensated absences	-	20,506	16,746	20,358
Bonds payable	-	-	185,000	200,000
Notes payable	-	-	16,397	-
Total noncurrent liabilities	<u>128,393</u>	<u>20,506</u>	<u>218,143</u>	<u>220,358</u>
Total liabilities	<u>\$ 131,343</u>	<u>\$ 319,473</u>	<u>\$ 294,576</u>	<u>\$ 297,390</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 194,028	\$ 3,798,276	\$ 1,547,395	\$ 1,167,043
Unrestricted	<u>(150,894)</u>	<u>2,998,110</u>	<u>232,325</u>	<u>(126,745)</u>
Total net assets	<u>\$ 43,134</u>	<u>\$ 6,796,386</u>	<u>\$ 1,779,720</u>	<u>\$ 1,040,298</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ (105,341)	\$ 1,264,612	\$ (257,605)
-	669,211	-
-	33,703	-
16,695	16,695	-
-	2,991	-
-	75,068	213
-	365,218	-
<u>(88,646)</u>	<u>2,427,498</u>	<u>(257,392)</u>

-	64,000	-
-	450,394	-
255,834	255,834	-
-	406,554	497
-	27,038	-
624,190	15,851,429	1,919,837
(83,304)	(8,072,353)	(1,272,059)
<u>796,720</u>	<u>8,982,896</u>	<u>648,275</u>
<u>\$ 708,074</u>	<u>\$ 11,410,394</u>	<u>\$ 390,883</u>

\$ 20,984	\$ 265,352	\$ 14,311
-	2,563	-
-	59,198	-
-	19,202	-
-	125,000	-
-	5,051	117,325
<u>20,984</u>	<u>476,366</u>	<u>131,636</u>

95,824	224,217	-
-	57,610	-
-	385,000	-
-	16,397	73,759
<u>95,824</u>	<u>683,224</u>	<u>73,759</u>
<u>\$ 116,808</u>	<u>\$ 1,159,590</u>	<u>\$ 205,395</u>

\$ 540,886	\$ 7,247,628	\$ 456,694
<u>50,380</u>	<u>3,003,176</u>	<u>(271,206)</u>
<u>\$ 591,266</u>	<u>\$ 10,250,804</u>	<u>\$ 185,488</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended March 31, 2006

	Gladstone Wireless	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:				
Charges for services	\$ 31,695	\$ 2,838,592	\$ 895,610	\$ 560,640
Miscellaneous	121	49,609	12,823	8,837
Total operating revenue	31,816	2,888,201	908,433	569,477
OPERATING EXPENSES:				
Salaries and fringes	14,085	453,048	292,894	262,748
Supplies	6,424	8,218	7,342	36,764
Contracted services	23,982	44,436	39,185	12,695
Repairs and maintenance	8,533	37,627	12,661	5,598
Utilities	387	12,034	28,240	45,705
Purchased power	-	1,667,025	-	-
Rent	-	8,804	11,968	6,518
Memberships and dues	-	7,182	1,764	494
Travel	16	7	177	-
Insurance	127	39,920	8,552	11,824
Education and training	-	1,993	270	3,006
In lieu of taxes	-	96,000	19,200	19,200
Depreciation	22,620	208,415	90,211	85,596
Miscellaneous	763	104,990	7,540	10,557
Total operating expenses	76,937	2,689,699	520,004	500,705
Operating income (loss)	(45,121)	198,502	388,429	68,772
NONOPERATING REVENUES (EXPENSES):				
Interest income	-	58,215	1,851	2,170
Gain (loss) on sale of equipment	-	-	(3,674)	-
Interest expense	-	-	(6,792)	(7,288)
Total nonoperating revenue (expense)	-	58,215	(8,615)	(5,118)
Income (loss) before transfers and contributions	(45,121)	256,717	379,814	63,654
Capital contributions	-	27,366	55,448	77,889
Transfer in	-	-	457,745	198,584
Transfer out	-	(1,117,144)	(23,000)	(26,000)
Change in net assets	(45,121)	(833,061)	870,007	314,127
Total net assets - beginning	88,255	7,629,447	909,713	726,171
Total net assets - ending	\$ 43,134	\$ 6,796,386	\$ 1,779,720	\$ 1,040,298

See accompanying notes to financial statements.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
\$ -	\$ 4,326,537	\$ 340,076
18,497	89,887	5,281
18,497	4,416,424	345,357
682	1,023,457	96,589
30	58,778	109,453
13,700	133,998	16,903
-	64,419	11,163
-	86,366	14,507
-	1,667,025	-
77	27,367	456
-	9,440	126
-	200	-
-	60,423	15,317
-	5,269	-
-	134,400	6,720
13,940	420,782	102,189
11,575	135,425	905
40,004	3,827,349	374,328
(21,507)	589,075	(28,971)
12,485	74,721	-
-	(3,674)	2,100
-	(14,080)	(9,544)
12,485	56,967	(7,444)
(9,022)	646,042	(36,415)
-	160,703	-
316,515	972,844	-
(9,600)	(1,175,744)	(65,000)
297,893	603,845	(101,415)
293,373	9,646,959	286,903
\$ 591,266	\$ 10,250,804	\$ 185,488

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2006

	Gladstone Wireless	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 29,452	\$ 2,767,071	\$ 870,099	\$ 546,450
Payments to suppliers	(38,782)	(1,942,479)	(138,024)	(143,660)
Payments for wages and related benefits	(14,085)	(459,445)	(291,610)	(259,755)
Other receipts (payments)	-	1,061,279	(444,922)	(189,747)
Net cash provided (used) by operating activities	(23,415)	1,426,426	(4,457)	(46,712)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	-	(1,117,144)	434,745	172,583
Cash received (paid) on customer deposits	-	(1,137)	-	-
Net cash provided (used) by noncapital financing activities	-	(1,118,281)	434,745	172,583
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of fixed assets	-	(139,466)	(118,155)	(110,613)
Principal paid on debt instruments	-	-	(59,786)	(65,000)
Interest paid on debt instruments	-	-	(7,251)	(7,288)
Proceeds from sale of capital assets	-	-	-	-
Proceed from issuance of debt instrument	-	-	-	-
Capital contributions	-	27,366	55,448	77,889
Net cash provided (used) by capital and related financing activities	-	(112,100)	(129,744)	(105,012)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in ATC	-	(18,212)	-	-
Interest earnings	-	58,215	1,851	2,170
Net cash provided (used) by investing activities	-	40,003	1,851	2,170
Net increase (decrease) in cash and equivalents	(23,415)	236,048	302,395	23,029
Cash and equivalents, beginning of year	1,500	1,606,460	(180,183)	(281,881)
Cash and equivalents, end of year	<u>\$ (21,915)</u>	<u>\$ 1,842,508</u>	<u>\$ 122,212</u>	<u>\$ (258,852)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (45,121)	\$ 198,502	\$ 388,429	\$ 68,772
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation/amortization expense	22,620	208,415	94,587	90,232
Changes in assets and liabilities:				
(Increase) decrease in receivables	(2,364)	(71,521)	(25,511)	(14,190)
(Increase) decrease in due from other funds	-	1,011,670	-	-
(Increase) decrease in inventory	-	(4,817)	-	-
Increase (decrease) in accounts payable	1,450	90,574	(5,501)	4,065
Increase (decrease) in accrued payroll	-	(6,397)	1,284	2,993
Increase (decrease) in due to other funds	-	-	(457,745)	(198,584)
Net cash provided by operating activities	<u>\$ (23,415)</u>	<u>\$ 1,426,426</u>	<u>\$ (4,457)</u>	<u>\$ (46,712)</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ 18,497	\$ 4,231,569	\$ 340,076
(67,265)	(2,330,210)	(173,706)
(682)	(1,025,577)	(96,589)
(386,808)	39,802	5,281
(436,258)	915,584	75,062
306,915	(202,901)	(65,000)
-	(1,137)	-
306,915	(204,038)	(65,000)
(14,042)	(382,276)	(5,870)
-	(124,786)	(80,611)
-	(14,539)	(9,544)
48,154	48,154	2,100
-	-	-
-	160,703	-
34,112	(312,744)	(93,925)
-	(18,212)	-
12,532	74,768	513
12,532	56,556	513
(82,699)	455,358	(83,350)
(22,642)	1,123,254	(174,255)
\$ (105,341)	\$ 1,578,612	\$ (257,605)
\$ (21,507)	\$ 589,075	\$ (28,971)
13,940	429,794	102,189
(42,644)	(156,230)	-
-	1,011,670	-
-	(4,817)	-
(41,883)	48,705	1,844
-	(2,120)	-
(344,164)	(1,000,493)	-
\$ (436,258)	\$ 915,584	\$ 75,062

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
March 31, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 30,355
Receivables:	
Delinquent taxes	<u>125,324</u>
Total assets	<u><u>\$ 155,679</u></u>
LIABILITIES	
Due to other units governmental units	<u><u>\$ 155,679</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

The City of Gladstone was incorporated March 1, 1889 under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services.

Component Units – In conformity with accounting principles generally accepted in the United States of America, the financial statements of the Gladstone Housing Commission are reported as a discretely presented component unit in a separate column to emphasize that they are legally separate from the City.

Gladstone Housing Commission – The Housing Commission was formed by the City of Gladstone under Public Act 18 of 1933 for the purpose of providing safe and affordable housing for low income and elderly individuals. The City Commission appoints the board members to the Housing Commission, however, the City does not provide any financial assistance to the Housing Commission. The Housing Commission issues separately audited financial statements which can be obtained from the Gladstone Housing Commission at 217 Dakota Avenue, Gladstone, MI 49837.

The following entities are not included because the City does not exercise oversight responsibility or they are autonomous governmental units.

Gladstone Area Schools – provides education services to the community.

Gladstone Area Public Library – provides library services to the community.

Gladstone Senior Citizens Non-Profit Corporation – provides recreational activities for the elderly.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Joint Venture – The City of Gladstone is a participant with Delta County, the City of Escanaba, and local townships in a joint venture to provide for a landfill, the Delta Solid Waste Management Authority. The Authority is governed by a seven person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of Commissioners. Complete financial statements for the Delta Solid Waste Management Authority can be obtained directly from Delta Solid Waste Management Authority. See note P for additional information.

Delta Solid Waste Management Authority
1100 Delta Avenue
Gladstone, MI 49837

The accounting policies of the City of Gladstone conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds either in accordance with the above criteria or the State of Michigan reporting requirements for Major and Local Street Funds:

The General Fund which is described below.

The Major Street Fund which is used to account for the repair, maintenance and construction of the City's major streets.

The Local Street Fund which is used to account for the repair, maintenance and construction of the City's local streets.

The Revolving Loan Fund which accounts for activity relating to loans made to local business.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The City reports the following as major enterprise funds in accordance with the above criteria:

The Gladstone Wireless Fund which accounts for high speed internet services provided to the citizens of the City of Gladstone and the surrounding area.

The Electric Utility Fund accounts for electric services provided to the citizens of the City of Gladstone.

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Gladstone.

The Water Utility Fund accounts for water services provided to the citizens of the City of Gladstone.

The funds of the City are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, the Equipment Fund is the City's only internal service fund and is included with the governmental activities and accounts for equipment usage activity used by various City departments.

Fiduciary Funds

Agency Fund - The Tax Fund is the City's only agency fund and is used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

As allowed by GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds.

(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less or where there is no loss of principal upon early withdrawal.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The City has not recorded an allowance for uncollectables as the City does not anticipate any material uncollectable accounts.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Inventory – Materials inventory in the Electric Utility Fund and supplies inventory in the General Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Prior to April 1, 2001, governmental funds' infrastructure asset, the major and local street systems, were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25 – 50 years
Machinery and equipment	3 – 20 years
Infrastructure	10 – 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

- f. Restricted Assets – Restricted assets include cash and equivalents which have been reserved for the principal portion of the Cemetery Perpetual Care Fund non-expendable cash.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$51,342 in the General Fund for personal property taxes and advanced revenue collections and \$139,243 in the Revolving Loan Fund for long-term contracts receivable. These amounts have been deemed measurable, but not currently available.
- j. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- 1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City’s policy to use restricted resources first.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Other Financing Sources (Uses)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to February 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to April 1, a public hearing is held to allow for public comment on the proposed budget and then the budget is legally enacted through passage of an ordinance.
- c. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Commission.
- d. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Commission in March. Individual amendments were material in relation to the original appropriations which were amended.
- e. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Property Taxes

Property taxes levied attach as an enforceable lien on property. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, the Community College and the County. Collections and remittances for all taxes are accounted for in the Tax (Agency) Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE

Budget Violations – Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

General Fund	\$	205,880
State Trunkline		109,470
Revolving Loan Fund		203
Downtown Development Authority		41,870
MSHDA Rental Property		13,848

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE (continued)

(2) The following funds had deficit unreserved fund balances/unrestricted net assets:

Governmental funds:	
Solid Waste	\$ 46,337
Proprietary funds:	
Gladstone Wireless	150,894
Water Utility	126,745
Land Development	85,889
Equipment Fund	271,206

Public Act 140 of 1971, as amended and Public Act 34 of 2001, as amended, requires the City to file a deficit elimination plan with the Department of Treasury for the fund deficits listed above.

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS

The composition of cash and equivalents as reported in the government-wide Statement of Net Assets is presented below:

Imprest Cash		\$ 790
Deposits:		
Checking accounts	\$ 1,293,425	
Certificate of Deposit	<u>575,000</u>	<u>1,868,425</u>
Total cash and equivalents		<u><u>\$ 1,869,215</u></u>

Government-wide Statement of
Net Assets Presentation:

Unrestricted	\$ 1,549,811	
Restricted	<u>289,049</u>	\$ 1,838,860

Statement of Fiduciary Net Assets 30,355

Total cash and equivalents \$ 1,869,215

Investments:

U.S. government agency securities	\$ 250,000
Upper Peninsula Public Power Agency	<u>200,394</u>

Total investments \$ 450,394

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost and are in accordance with statutory authority. The Governmental Accounting Standards Board (GASB) Statement No. 40 risk disclosures for the City's cash deposits and investments are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 200,000	\$ 200,000
Uninsured	1,722,377	1,669,215
Total	<u>\$ 1,922,377</u>	<u>\$ 1,869,215</u>

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As noted in the preceding table, the City has \$1,722,377 of bank deposits that were uninsured and uncollateralized.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 250,000	Counter party

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities. At year end, the specific maturities of investments are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Maturities</u>
U.S. government and agency securities:		
Federal Home Loan Bank	\$ 250,000	3/13/2007

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the City's investment policy limit the investment in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 250,000	AAA	S & P

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$225,049 for cemetery care as required by the nature of the fund.

During the fiscal year ended March 31, 2004, the City refinanced the 1994 waste water and water system revenue bonds, in part by issuing 2004 waste water and water system revenue bonds. As part of issuing the new bonds, the bond agreement calls for the City to establish and maintain separate depository accounts for bond and interest redemption and an account for replacement and improvement. Cash has been restricted in the following funds:

Waste Water Fund	\$ 30,500
Water Fund	33,500

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Investment in Upper Peninsula Public Power Agency

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City contributed \$173,297 in cash and \$27,097 in equipment for a total investment of \$200,394. Neither UPPPA or ATC are publicly traded companies, therefore, the City has recorded this investment at cost, which the City feels approximates market value given the annual return on this investment.

The following is the percentage interest in UPPPA by municipality:

Village of Baraga	4.67%
City of Crystal Falls	4.37%
City of Gladstone	6.90%
Village of L'Anse	2.76%
Marquette Board of Light and Power	68.22%
City of Negaunee	5.87%
City of Norway	7.21%
	<hr/>
Total	100.00%

UPPPA owns .47% of ATC, LLC.

NOTE D – PROPERTY TAXES

(1) Tax information:

Assessment Date. December 31

Taxes payable July 10

Taxes Delinquent March 1 following date payable

Penalties for delinquency – The following charges are added to unpaid taxes:

On August 15, a 4% penalty is added.

Commencing March 1, interest is added to all unpaid taxes at the rate of 1% per month. Delinquent real property taxes are acquired by the Treasurer of Delta County. An additional 4% collection fee is added to the balance owing at the time.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE D – PROPERTY TAXES (continued)

Lien on property – Unpaid taxes, together with all charges thereon, become a continuing lien on property assessed. The general tax law of the State provides that delinquent real estate taxes be sold at public auction in July or November of the second year following the year of tax levy.

(2) Schedule of State Equalized Valuation and Taxable Values:

Year	Real	Personal	Total
1980	\$ 22,818,556	\$ 1,416,900	\$ 24,235,456
1981	23,717,233	1,402,900	25,120,133
1982	25,591,300	1,416,100	27,007,400
1983	26,259,100	1,735,400	27,994,500
1984	26,456,400	1,886,300	28,342,700
1985	27,148,200	2,128,500	29,276,700
1986	28,189,600	2,339,400	30,529,000
1987	28,523,700	2,300,100	30,823,800
1988	28,897,200	3,542,000	32,439,200
1989	29,348,900	3,564,000	32,912,900
1990	30,052,800	3,928,000	33,980,800
1991	32,466,100	4,025,000	36,491,100
1992	35,490,200	4,653,700	40,143,900
1993	34,997,900	4,170,900	39,168,800
1994	37,978,900	4,598,000	42,576,900
1995	40,146,600	4,840,200	44,986,800
1996	44,252,300	5,614,100	49,866,400
1997	44,731,000	5,547,450	50,278,450
1998	48,702,846	6,544,900	55,247,746
1999	52,246,500	7,261,900	59,508,400
2000	56,966,800	7,003,200	63,970,000
2001	61,646,100	6,894,200	68,540,300
2002	65,730,220	7,074,246	72,804,466
2003	69,954,964	7,532,830	77,487,794
2004	73,303,100	6,376,000	79,679,100
2005	77,310,900	6,341,200	83,652,100

Note: Pursuant to Proposal A, assessed property taxes are levied based upon taxable values beginning in 1995.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE D – PROPERTY TAXES (continued)

The State of Michigan, beginning in 1967, required that taxes be levied on state equalized valuations rather than on assessed valuation. The valuations for the years 1961 through 1966, inclusive, are City assessed valuations, the year 1967 are state equalized valuations, and the year 1968 are City assessed valuations. In 1968, the City was allowed to assess on City valuations because they were almost equal to that of State equalized valuations. For years 1969 to 2005, inclusive, the City and State valuations are the same.

(3) Annual tax rates (per \$1,000 valuation):

Year	City Tax	School *	Schools			Total Local Taxes	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt					
1961	14.7300	17.0000	-	-	-	31.7300	-	7.9300	-	39.6600
1962	14.7400	23.6000	-	-	-	38.3400	-	7.9500	-	46.2900
1963	14.7700	23.3900	-	-	-	38.1600	1.1410	10.1550	0.1140	49.5700
1964	15.9100	23.1200	-	-	-	39.0300	1.1400	8.1600	0.0800	48.4100
1965	15.9300	24.2300	-	-	-	40.1600	1.1400	8.2300	0.1000	49.6300
1966	15.9000	24.8600	-	-	-	40.7600	1.1400	8.2100	0.6900	50.8000
1967	14.0600	21.8000	-	-	-	35.8600	1.0000	6.2000	0.6000	43.6600
1968	14.0000	23.3000	-	-	-	37.3000	2.5000	5.2000	0.6000	45.6000
1969	15.0000	21.8000	-	-	-	36.8000	2.5000	5.2000	1.1100	45.6100
1970	17.0000	19.8000	-	-	-	36.8000	2.5000	5.9000	1.1460	46.3460
1971	17.0000	22.0000	-	-	-	39.0000	2.5000	5.9000	2.2200	49.6200
1972	17.0000	21.3000	-	-	-	38.3000	2.5000	6.2000	2.6500	49.6500
1973	17.0000	27.1000	-	-	-	44.1000	2.5000	5.0000	2.7000	54.3000
1974	16.0000	24.1000	-	-	-	40.1000	2.5000	5.0000	2.7000	50.3000
1975	17.0000	23.7000	-	-	-	40.7000	2.5000	5.4500	2.6500	51.3000
1976	17.0000	27.2000	-	-	-	44.2000	2.5000	5.4500	2.6500	54.8000
1977	17.0000	27.2800	-	-	-	44.2800	2.5000	5.4500	2.6500	54.8800
1978	17.0000	16.7300	-	-	-	33.7300	2.5000	5.4500	2.6500	44.3300
1979	17.0000	27.6000	-	-	-	44.6000	2.5000	5.4500	2.6500	55.2000
1980	17.0000	30.1200	-	-	-	47.1200	2.5000	5.4500	2.6500	57.7200
1981	17.0000	32.4800	-	-	-	49.4800	2.5000	5.4500	2.6500	60.0800
1982	16.9900	31.2800	-	-	-	48.2700	2.5000	5.2000	2.6500	58.6200
1983	16.9371	21.2800	-	-	-	38.2171	2.5000	5.0844	2.6500	48.4515
1984	16.8867	31.6129	-	-	-	48.4996	2.5000	5.4500	2.6500	59.0996
1985	17.0000	33.8496	-	-	-	50.8496	2.5000	5.4500	2.6500	61.4496
1986	17.0000	33.4659	-	-	-	50.4659	2.5000	5.4500	2.6500	61.0659
1987	17.0000	33.2594	-	-	-	50.2594	2.5000	6.1000	2.6500	61.5094
1988	17.0000	33.2732	-	-	-	50.2732	2.5000	5.4500	2.6500	60.8732
1989	17.0000	37.5654	-	-	-	54.5654	2.5000	6.1000	2.6500	65.8154
1990	17.0000	37.5452	-	-	-	54.5452	2.5000	7.0500	2.6500	66.7452

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE D – PROPERTY TAXES (continued)

Year	City Tax	School *	Schools			Total Local Taxes	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt					
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	3.2735	7.0483	2.5124	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	54.2748
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	3.3600	7.0107	2.4917	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	3.3585	6.6319	2.4807	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	3.3511	6.6112	2.4695	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	3.3506	6.6097	2.4596	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	3.5000	6.5719	2.4375	59.6997
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	3.5000	6.5455	2.4191	60.6549
2005	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223

* From 1961 to 1993, the school millage was applied to all properties and included the debt millage.

- (4) City's Share of Current Property Taxes – The City's share of current real and personal property taxes included in the General Fund for the year ended March 31, 2006 was \$1,212,709.

NOTE E – LONG-TERM RECEIVABLES

Governmental Activities:

- (1) Revolving Loan Fund – The City has received various grants from the State of Michigan Small Cities Grant Program which it has loaned to local businesses on installment contracts for building and equipment acquisition. The primary purpose for the loans was job retention and creation within the City.

The Revolving Loan Fund has recorded as deferred revenue the amount of the loans in the fund financial statements. As the contract payments are received by the Revolving Loan Fund, they will be shown as revenues in accordance with generally accepted accounting principles. In the statement of net assets the deferred revenue has been eliminated. Remaining principal payments to be received as of March 31, 2006 are as follows:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE E – LONG-TERM RECEIVABLES (continued)

Year Ending March 31	Amount
2007	\$ 41,961
2008	20,040
2009	17,611
2010	11,860
2011	12,883
Thereafter	34,888
Total	<u>\$ 139,243</u>

Business-Type Activities:

The Economic Development Corporation has made loans to various local businesses to assist in capital asset acquisitions or for operational needs. Remaining principal payments to be received as of March 31, 2006 are as follows:

Year Ending March 31	Amount
2007	\$ 16,695
2008	24,608
2009	26,045
2010	27,577
2011	24,712
Thereafter	152,892
Total	<u>\$ 272,529</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE F – CAPITAL ASSETS

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended March 31, 2006, was as follows:

	Balance at April 1, 2005	Additions	Disposals	Balance at March 31, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,601,627	\$ -	\$ -	\$ 1,601,627
Capital assets being depreciated:				
Land improvements	119,600	10,213	-	129,813
Buildings	2,642,296	341,828	-	2,984,124
Machinery and equipment	2,706,743	53,639	-	2,760,382
Infrastructure-road system	9,635,819	128,519	-	9,764,338
Infrastructure-other	199,559	119,801	-	319,360
Total capital assets	16,905,644	654,000	-	17,559,644
Less accumulated depreciation:				
Land improvements	35,540	11,919	-	47,459
Buildings	1,067,266	56,165	-	1,123,431
Machinery and equipment	1,766,485	151,502	-	1,917,987
Infrastructure-road system	7,360,556	485,539	-	7,846,095
Infrastructure-other	14,420	19,961	-	34,381
Total accumulated depreciation	10,244,267	725,086	-	10,969,353
Governmental activities capital assets, net	\$ 6,661,377	\$ (71,086)	\$ -	\$ 6,590,291

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE F – CAPITAL ASSETS (continued)

	Balance at April 1, 2005	Additions	Disposals	Balance at March 31, 2006
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 351,144	\$ 14,042	\$ 48,387	\$ 316,799
Construction in progress	-	26,193	-	26,193
Capital assets being depreciated:				
Buildings	191,989	-	-	191,989
Machinery and equipment	689,467	17,877	6,870	700,474
Distribution/collection system	14,296,258	324,396	4,680	14,615,974
Total capital assets	<u>15,528,858</u>	<u>382,508</u>	<u>59,937</u>	<u>15,851,429</u>
Less accumulated depreciation:				
Buildings	25,773	7,213	-	32,986
Machinery and equipment	443,503	55,650	3,509	495,644
Distribution/collection system	7,190,175	357,917	4,369	7,543,723
Total accumulated depreciation	<u>7,659,451</u>	<u>420,780</u>	<u>7,878</u>	<u>8,072,353</u>
Business-type activities capital assets, net	<u>\$ 7,869,407</u>	<u>\$ (38,272)</u>	<u>\$ 52,059</u>	<u>\$ 7,779,076</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 14,450
Public health and safety	60,130
Parks and recreation	77,888
Cemetery	427
General public works	36,354
Street system	534,847
Community development	<u>990</u>
Total governmental activities depreciation expense	<u>\$ 725,086</u>
Business-type activities:	
Electric	\$ 208,415
Water	85,596
Waste water	90,211
Wireless broadband	22,618
Development	<u>13,940</u>
Total business-type activities depreciation expense	<u>\$ 420,780</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE F – CAPITAL ASSETS (continued)

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$2,000 or more as of March 31, 2002. In prior years, the City capitalized fixed assets with a value of \$500 or more.

NOTE G – RETIREMENT PLANS

MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM

(1) Plan Description – The City of Gladstone participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee's Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. All full-time employees of the City are eligible to participate in the system that were hired prior to December 1, 1997. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

There are three valuation divisions within the plan which provide different benefit provisions. The General Other division, which covers the non-supervisory employees of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after age 55 with 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE G – RETIREMENT PLANS (continued)

The Police-Fire division, which covers the police and fire personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation.

The General Supervisor division, which covers the supervisory personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after the age of 55 with 20 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation, with a maximum benefit of 80 percent of the member's final five-year average compensation.

All three valuation divisions adopted the Benefit E which provides a onetime benefit increase to present retirees and beneficiaries. The amount of the increase is equal to 2 percent of the present benefit times the number of years since the later of retirement or the last Benefit E increase.

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE G – RETIREMENT PLANS (continued)

GASB 25 INFORMATION (AS OF 12/31/04)

Actuarial Accrued Liability:		
Retirees and beneficiaries currently receiving benefits	\$	4,227,583
Terminated employees not yet receiving benefits		112,327
Current Employees:		
Accumulated employee contributions including allocated investment income		89,336
Employer financed		3,956,616
Total actuarial liability		8,385,862
Net assets available for benefits, at actuarial value (market value is \$5,066,075)		5,190,016
Unfunded (overfunded) actuarial accrued liability	\$	3,195,846

GASB 27 INFORMATION (AS OF 12/31/04)

Fiscal year beginning		April 1, 2006
Annual required contribution (ARC)	\$	346,932
Amortization factor used - underfunded liabilities (30 years)		0.053632
Amortization factor used - underfunded liabilities (24 years)		0.061616
Amortization factor used - underfunded liabilities (30 year level \$)		0.085453

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

<u>Year Ended March 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 183,316	100%	\$ -
2004	220,896	100%	-
2005	250,018	100%	-

The City was required to contribute \$272,136 for the year ended March 31, 2006. Payments were based on contribution calculations made by MERS.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE G – RETIREMENT PLANS (continued)

Aggregate Accrued Liabilities – Comparative Schedule

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2002	\$ 4,681,789	\$ 7,244,174	\$ 2,562,385	65%	\$ 1,045,871	245%
2003	4,820,635	7,864,852	3,044,217	61%	1,102,977	276%
2004	5,190,016	8,385,862	3,195,846	62%	1,087,022	294%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000 and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

401 (A) RETIREMENT PLAN

During the year ended March 31, 1998, the City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by the International City/County Management Association. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. In addition, if the employee contributes an additional 3.0% to the plan the City will match the employee contribution of 3%. All contributions are held and owned in the name of each employee.

Year Ended March 31,	Number of Participants	City's Share	Employee's Share
2004	22	\$ 79,360	\$ 20,913
2005	21	86,617	22,804
2006	22	85,087	22,289

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE H – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$158,896 are reported under governmental activities and \$76,812 is reported under business-type activities in the Statement of Net Assets.

NOTE I – POST RETIREMENT HEALTH BENEFITS

The City provides its employees with post retirement health benefits. These benefits were negotiated through union contracts for the P.O.L.C. and Teamsters union contracts and approved separately for the Supervisors group, a non-union group.

The P.O.L.C. contract requires the City to pay the monthly health insurance premium for employees who meet the retirement criteria as outlined in the union contract until the age of 65, or for 12 years, whichever is less. Any increase in the monthly premiums after the date of retirement shall be borne by the retired employee. The Teamsters contract requires the City to pay the monthly health insurance premiums for 10 years after retirement or until covered by Medicare, whichever is less. The City is required to pay premium increase for years one through seven and the retired employee will pay the premium increases for years eight, nine and ten. The City has agreed to provide the Supervisors group with post employment health benefits for a period of 10 years or until the age of 65, whichever comes first. All premium increases during that period of time will be covered by the City.

For the year ended March 31, 2006, the City has not performed an actuarial valuation for the post-employment health benefits and it is the City's policy to fund this benefit on a pay-as-you-go basis. The following is a summary of the post-employment health benefits:

For the Year Ended March 31,	Annual Cost	Number of Retiree's Receiving Benefits
2004	\$ 85,146	8
2005	87,214	8
2006	71,899	7

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE J – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2006:

Type of Debt	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006	Amounts Due Within One Year
Governmental Activities:					
Note - fire truck	\$ 108,831	\$ -	\$ 21,704	\$ 87,127	\$ 12,219
Note - vac truck	57,047	-	11,635	45,412	12,085
Note - garbage truck	46,943	-	14,791	32,152	15,372
Note - dump truck	19,560	-	19,560	-	-
Note - loader	76,575	-	10,276	66,299	66,299
Note - dump truck	38,963	-	19,956	19,007	19,007
Note - trackless	32,607	-	4,393	28,214	4,562
Note - campground	-	150,000	-	150,000	12,379
D.D.A. bonds	485,000	-	85,000	400,000	90,000
1995 B.A. bonds	105,000	-	25,000	80,000	25,000
2000 B.A. bonds	785,000	-	35,000	750,000	35,000
Due to other					
governmental units	105,580	-	-	105,580	-
Compensated absences	161,536	-	2,640	158,896	31,779
Total governmental long-term debt	<u>\$ 2,022,642</u>	<u>\$ 150,000</u>	<u>\$ 249,955</u>	<u>\$ 1,922,687</u>	<u>\$ 323,702</u>
Business-type Activities:					
Note - tanker truck	\$ 26,234	\$ -	\$ 4,538	\$ 21,448	\$ 5,051
2004 Waste Water bond	300,000	-	55,000	245,000	60,000
2004 Water bond	330,000	-	65,000	265,000	65,000
Compensated absences	78,932	-	2,120	76,812	19,202
Total business-type long-term debt	<u>\$ 735,166</u>	<u>\$ -</u>	<u>\$ 126,658</u>	<u>\$ 608,260</u>	<u>\$ 149,253</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE J – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at March 31, 2006 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2007	\$ 141,923	\$ 14,260	\$ 150,000	\$ 66,627
2008	63,042	10,657	155,000	56,930
2009	50,193	8,382	175,000	46,651
2010	45,158	6,415	150,000	35,236
2011	121,825	4,774	40,000	29,361
2012-2016	6,070	59	245,000	112,067
2017-2021	-	-	315,000	41,672
	<u>\$ 428,211</u>	<u>\$ 44,547</u>	<u>\$ 1,230,000</u>	<u>\$ 388,544</u>

For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2007	\$ 5,051	\$ 1,035	\$ 125,000	\$ 12,788
2008	5,329	757	125,000	10,288
2009	5,626	609	130,000	7,476
2010	5,442	149	130,000	3,900
	<u>\$ 21,448</u>	<u>\$ 2,550</u>	<u>\$ 510,000</u>	<u>\$ 34,452</u>

Governmental Activities:

As of March 31, 2006, the governmental activities long-term debt consisted of the following:

Notes Payable:

Note payable issued October 22, 1996 for \$201,985 at 4.5% to First Bank for the purchase of a fire truck. The note calls for 180 monthly principal and interest payments of \$1,640.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE J – LONG-TERM DEBT (continued)

During the year ended March 31, 2000, the City signed a 60-month note for the purchase of a vac-all truck. The note calls for monthly payments of \$1,798 and a final balloon payment of \$61,437. The note bears an interest rate of 5.1%.

During 1998, the City signed a 60 month note for the purchase of a garbage truck. The note calls for monthly principal and interest payments of \$1,375 and a final balloon payment of \$71,696. The note bears an interest rate of 5.65%.

During the year ended March 31, 2001, the City signed a 60 month note for the purchase of a tandem axle dump truck with accessories. The note calls for monthly payments (59, including interest) of \$1,848 and bears an interest rate of 5.35%. This note was paid off in 2006.

During the year ended March 31, 2002 the City signed a 60 month note for the purchase of a front-end loader. The note calls for monthly principal and interest payments of \$1,098 and a final balloon payment of \$60,325 and bears an interest rate of 4.04%.

During the year ended March 31, 2002, the City signed a 60 month note for the purchase of a dump truck. The note calls for monthly principal and interest payments of \$1,763 and bears an interest rate of 4.0%.

During the year ended March 31, 2005, the City signed an 83 month note for the purchase of a 4x4 articulating tractor. The note calls for monthly principal and interest payments of \$463 and bears an interest rate of 3.8%.

During the year ended March 31, 2006, the City signed a 48 month note for the construction of a bathroom facility at the City campground. The note calls for four annual payments of \$18,500 and one balloon payment of \$101,188 in 2010. The note bears an interest rate of 4.0%.

Due to Other Governmental Units:

During the year ended March 31, 2005, the City was informed that they may not have properly distributed payment in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission (STC) and they have not received a resolution back from the STC. The City has estimated and recorded an amount of \$105,580 that would be due to other taxing units if that is what is required. A final amount cannot be determined until the City receives notice from the STC regarding final disposition of this issue.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE J – LONG-TERM DEBT (continued)

Bonds Payable:

Bonds were issued November 1, 1994 for \$995,000 with a variable interest rate ranging from 5.9% to 8.0% for the purpose of making improvements on the Downtown Development Area and have a final maturity of May 2009.

Bonds were issued March 15, 1995 for \$270,000 at 5.6% in the name of the Building Authority for the purpose of making improvements at the Sports Park and have a final maturity of March 2009.

Bonds were issued May 4, 2000 for a total of \$891,190 at 5% in the name of the Building Authority for the purpose of paying the cost of acquiring, constructing and equipping a public safety building to be used by the City and have a final maturity of May 2020.

Business-type Activities:

As of March 31, 2006, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended March 31, 2000, the City signed a 120 month note for the purchase of a tanker truck. The note calls for monthly principal and interest payments of \$507 and bears an interest rate of 5.4%.

Bonds Payable:

2004 Waste Water System Bonds – On February 18, 2004 the City issued waste water system revenue refunding bond series 2004 for the purpose of retiring the 1994 waste water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$305,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each November 1 and May 1. Principal payments are due each November 1 with the final principal payment due no later than November 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE J – LONG-TERM DEBT (continued)

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$111,505. Of the \$111,505, \$80,000 represents advance payment of principal made by the City as part of defeasing the 1994 bond issue, leaving net cumulative savings of \$31,505. The economic gain resulting from this transaction at a present value of 3.477% is \$20,301.

2004 Water System Bonds – On February 18, 2004 the City issued water system revenue refunding bond series 2004 for the purpose of retiring the 1994 water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$335,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each October 1 and April 1. Principal payments are due each October 1 with the final principal payment due no later than October 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$21,972. The economic gain resulting from this transaction at a present value of 3.477% is \$14,158.

NOTE K – BOND ISSUANCE COSTS

On February 18, 2004 the City issued waste water and water revenue bonds which resulted in bond issuance costs which will be amortized over the life of the bond issue. Below is the detail relating to the bond issuance costs:

	Bond Costs	Premium paid on 1994 Bonds	Total
Waste Water Fund	\$ 14,881	\$ 7,000	\$ 21,881
Water Fund	\$ 15,783	\$ 7,400	23,183
			45,064
Less accumulated amortization			(18,026)
Net bond issuance cost			<u>\$ 27,038</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE L – INTERFUND BALANCES AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables have been classified as noncurrent assets and liabilities in the Statement of Net Assets due to the individual funds inability to repay these amounts. Individual fund interfund receivables and payable balances at March 31, 2006 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
		Land Development	\$ 44,213
		MSHDA-Rental Property	<u>18,997</u>
General Fund	<u>\$ 63,210</u>	Subtotal	<u>63,210</u>
		General Fund	158,662
		Major Street Fund	46,013
		EDC Fund	51,611
		Gladstone Wireless Fund	128,393
		Local Street Fund	<u>19,889</u>
Electric Fund	<u>404,568</u>	Subtotal	<u>404,568</u>
Major Street Fund	869		
Local Street Fund	621		
Waste Water Fund	993		
Water Fund	993		
Internal Service Fund	<u>497</u>		
Subtotal	<u>3,973</u>	General Fund	<u>3,973</u>
Total	<u>\$ 471,751</u>	Total	<u>\$ 471,751</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE L – INTERFUND BALANCES AND TRANSFERS (continued)

The transfers to and from the various funds are made to account for budgetary authorizations and/or providing funding for operations as needed. Interfund transfers for the year ended March 31, 2006 were as follows:

	Transfers In	Transfers Out
General Fund:		
Electric Utility	\$ 87,600	\$ -
Waste Water Utility	23,000	-
Water Utility	26,000	-
Major Street	10,000	-
Local Street	10,000	5,100
Revolving Loan	4,800	-
Equipment Fund	5,000	-
Nonmajor proprietary	9,600	-
Nonmajor governmental	77,452	150,721
Total General Fund	253,452	155,821
Major Street Fund	40,000	33,050
Local Street Fund	144,850	10,000
Revolving Loan	-	4,800
Waste Water Utility	457,745	23,000
Water Utility	198,584	26,000
Electric Utility	-	1,117,144
Total Nonmajor Funds	583,126	307,942
Totals	\$ 1,677,757	\$ 1,677,757

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE M – RESTRICTED NET ASSETS

Restricted net assets as reported in the statement of net assets have been restricted in the amount of \$3,864 and relate to drug forfeiture proceeds which are restricted for the purpose of enhancing law enforcement activities related to drug law enforcement.

NOTE N – RISK MANAGEMENT

The City of Gladstone participates as a member of the Michigan Municipal Risk Management Authority. The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

This summarizes certain obligations of MMRMA and the City. Except for specific coverage limits and the City's Self Insured Retention (hereinafter the "SIR") and deductibles contained in this Coverage Overview, the provisions of the Joint Powers Agreement, Coverage Documents, MMRMA rules, regulations, and administrative procedures shall prevail in any dispute. The City agrees that any dispute between the City and MMRMA will be resolved in the manner stated in the Joint Powers Agreement and MMRMA rules.

City Obligations – City of Gladstone is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the City's SIR. City of Gladstone's SIR and deductibles are as follows:

Table I
City Deductibles and Self Insured Retentions

COVERAGE	DEDUCTIBLE	SELF INSURED RETENTION
1. Liability	None	State Pool Member
2. Vehicle Physical Damage	\$250/Vehicle	State Pool Member
3. Property & Crime	\$250/Occurrence	State Pool Member

The City must satisfy all deductibles before any payments are made from the City's SIR or by MMRMA.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE N – RISK MANAGEMENT (continued)

All costs including damages and allocated loss adjustment expenses are on an occurrence basis and must be paid first from the City's SIR. The City's SIR and deductibles must be satisfied fully before MMRMA will be responsible for any payments. The most MMRMA will pay is the difference between the City's SIR and the Limits of Coverage stated in the Coverage Overview.

City of Gladstone agrees to maintain, at all times, on account with MMRMA sufficient funds to pay its SIR obligations. The City agrees to abide by all MMRMA rules, regulations, and administrative procedures pertaining to the City's SIR.

MMRMA Obligations – After the City's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses up to limits established per agreement between the City and MMRMA.

At March 31, 2006, the City had no outstanding claims which exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

NOTE O – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2006.

During the year ended March 31, 2005, the City was informed that they had not properly distributed payment-in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission and is waiting for a determination as to the final disposition of this issue. A total amount owed has not been determined as of March 31, 2006, however an amount of \$105,580 has been recorded as a due to other governmental units in the statement of net assets as an estimate of the amount owed.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE P – JOINT VENTURE – DELTA SOLID WASTE LANDFILL

The Delta Solid Waste Management Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and the local units of government within the County. It was established in order to provide for a new landfill since the current county-wide site, owned by the City of Gladstone, was approaching saturation.

The Authority is governed by a seven-person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities and one member of the Delta County Board of Commissioners. The three members of the Authority Board from the villages and townships will be selected by and from a body composed of one representative from each such township or village; the three board members of the cities shall be selected by and from a body composed of two representatives from each such city; and the member of the Delta County Board of Commissioners shall be chosen by said Board of Commissioners after review of recommendations by the Townships, Villages and City representatives. The Authority as described herein has no taxing power.

The following local governmental units are participants in the Authority; shown with their respective percentage shares in the Authority:

<u>Local Governmental Unit</u>	<u>Percentage Share</u>
Delta County	51.8%
City of Escanaba	18.6%
City of Gladstone	5.9%
Local Townships	<u>23.7%</u>
	<u><u>100.0%</u></u>

Operation and maintenance costs are paid out of tipping fees assessed against users of the landfill. Parties that use the landfill include the municipal sanitation systems of the cities of Escanaba and Gladstone, and private solid waste companies serving the local units. The landfill began operation in December 1985. Currently City management feels the landfill does not pose any additional financial burden or benefit on the City. Financial information of the Delta Solid Waste Management Authority and Recycling Program is available at their administrative office located at 5701 19th Avenue North, Escanaba, MI 49829.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended March 31, 2006

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ -	\$ 19,127	\$ 19,127
State sources	606,020	756,020	712,417	(43,603)
Local sources	46,300	46,300	35,294	(11,006)
Taxes	1,477,630	1,477,630	1,437,397	(40,233)
Recreation	219,400	213,100	221,918	8,818
Public safety	68,020	68,020	33,370	(34,650)
Interest income	1,200	1,200	5,439	4,239
Miscellaneous	19,000	19,000	22,316	3,316
Total revenues	<u>2,437,570</u>	<u>2,581,270</u>	<u>2,487,278</u>	<u>(93,992)</u>
EXPENDITURES:				
General government:				
City commission	135,720	135,720	123,600	12,120
City manager	91,410	91,410	94,460	(3,050)
Elections	3,350	3,350	1,552	1,798
City assessor	66,610	66,610	62,316	4,294
Board of review	580	580	482	98
City treasurer	64,400	72,530	72,191	339
City clerk	71,230	80,930	79,576	1,354
City hall	59,320	63,120	61,959	1,161
Public health and safety:				
Police department	925,000	925,000	889,046	35,954
Fire department	213,430	213,430	192,547	20,883
Building and housing inspections	151,410	151,410	107,267	44,143
Parks and recreation:				
Recreation administrative	110,900	124,900	118,616	6,284
Harbor	52,870	56,270	52,281	3,989
Parks	44,510	44,510	36,383	8,127
Beach	30,950	30,950	30,313	637
Sports park	123,690	109,040	105,080	3,960
Campground	45,740	45,740	376,069	(330,329)
Miscellaneous	55,640	55,640	47,659	7,981
Cemetery:				
Cemetery administrative	16,410	16,410	10,157	6,253
Ground maintenance and burials	56,550	56,550	47,771	8,779
General public works:				
Forestry	14,000	14,000	12,643	1,357
Sidewalks	8,000	8,000	15,663	(7,663)
Grounds maintenance	6,700	6,700	5,606	1,094
Beautification	10,960	10,960	10,877	83
Capital outlay	54,950	54,950	59,752	(4,802)
Debt service	19,680	19,680	19,683	(3)
Total expenditures	<u>2,434,010</u>	<u>2,458,390</u>	<u>2,633,549</u>	<u>(175,159)</u>
Excess revenues (expenditures)	<u>3,560</u>	<u>122,880</u>	<u>(146,271)</u>	<u>(269,151)</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	184,800	234,800	253,452	18,652
Transfer out	(125,100)	(125,100)	(155,821)	(30,721)
Loan proceeds	-	150,000	150,000	-
Total other financing sources (uses)	<u>59,700</u>	<u>259,700</u>	<u>247,631</u>	<u>(12,069)</u>
Net changes in fund balances	<u>63,260</u>	<u>382,580</u>	<u>101,360</u>	<u>(281,220)</u>
Fund balances - beginning	<u>11,879</u>	<u>11,879</u>	<u>11,879</u>	<u>-</u>
Fund balances - ending	<u>\$ 75,139</u>	<u>\$ 394,459</u>	<u>\$ 113,239</u>	<u>\$ (281,220)</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended March 31, 2006

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 314,000	\$ 314,000	\$ 315,278	\$ 1,278
Local sources	21,000	21,000	21,131	131
Interest income	100	100	945	845
Miscellaneous	3,000	3,000	2,975	(25)
Total revenues	338,100	338,100	340,329	2,229
EXPENDITURES:				
Street system	359,150	361,150	302,021	59,129
Excess revenues (expenditures)	(21,050)	(23,050)	38,308	61,358
OTHER FINANCING SOURCES (USES):				
Transfer in	40,000	41,000	40,000	(1,000)
Transfer out	(33,050)	(33,050)	(33,050)	-
Total other financing sources (uses)	6,950	7,950	6,950	(1,000)
Net changes in fund balances	(14,100)	(15,100)	45,258	60,358
Fund balances - beginning	35,219	35,219	35,219	-
Fund balances - ending	\$ 21,119	\$ 20,119	\$ 80,477	\$ 119,716

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET FUND
For the Year Ended March 31, 2006

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
State sources	\$ 127,000	\$ 127,000	\$ 144,418	\$ 17,418
Local sources	-	-	31,292	31,292
Interest income	400	400	60	(340)
Miscellaneous	500	500	3,817	3,317
Total revenues	127,900	127,900	179,587	51,687
EXPENDITURES:				
Street system	262,750	298,450	270,527	27,923
Excess revenues (expenditures)	(134,850)	(170,550)	(90,940)	79,610
OTHER FINANCING SOURCES (USES):				
Transfer in	144,850	144,850	144,850	-
Transfer out	(10,000)	(10,000)	(10,000)	-
Total other financing sources (uses)	134,850	134,850	134,850	-
Net changes in fund balances	-	(35,700)	43,910	79,610
Fund balances - beginning	2,363	2,363	2,363	-
Fund balances - ending	\$ 2,363	\$ (33,337)	\$ 46,273	\$ 159,220

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REVOLVING LOAN
For the Year Ended March 31, 2006

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Loan repayment	\$ 40,180	\$ 40,180	\$ 35,083	\$ (5,097)
Interest income	9,320	9,320	9,682	362
Total revenues	49,500	49,500	44,765	(4,735)
EXPENDITURES:				
Community development	1,030	1,030	1,233	(203)
Excess revenues (expenditures)	48,470	48,470	43,532	(4,938)
OTHER FINANCING SOURCES (USES):				
Transfer out	(4,800)	(4,800)	(4,800)	-
Net change in fund balance	43,670	43,670	38,732	(4,938)
Fund balances - beginning	240,657	240,657	240,657	-
Fund balances - ending	<u>\$ 284,327</u>	<u>\$ 284,327</u>	<u>\$ 279,389</u>	<u>\$ (4,938)</u>

COMBINING FUND FINANCIAL STATEMENTS

CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2006

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property	MSHDA Homeowner
ASSETS				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	23,333	(62,795)	(22,919)	3,091
Receivables:				
Accounts	-	22,833	-	-
Interest	-	-	-	-
Due from other governmental units	3,231	-	76,226	-
Total assets	<u>\$ 26,564</u>	<u>\$ (39,962)</u>	<u>\$ 53,307</u>	<u>\$ 3,091</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 6,375	\$ 34,310	\$ -
Due to other funds	-	-	18,997	-
Due to other governmental units	-	-	-	-
Deferred revenue	26,564	-	-	-
Total liabilities	<u>26,564</u>	<u>6,375</u>	<u>53,307</u>	<u>-</u>
Fund balances:				
Reserved for:				
Cemetery perpetual care	-	-	-	-
Unreserved	-	(46,337)	-	3,091
Total fund balances	<u>-</u>	<u>(46,337)</u>	<u>-</u>	<u>3,091</u>
Total liabilities and fund balances	<u>\$ 26,564</u>	<u>\$ (39,962)</u>	<u>\$ 53,307</u>	<u>\$ 3,091</u>

See accompanying notes to financial statements.

Special Revenue	Debt Service Funds		Permanent Fund	Total Nonmajor Governmental Funds
Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ 225,049	\$ 225,049
49,280	1,086	-	-	(8,924)
-	-	-	-	22,833
152	-	-	304	456
40,261	-	-	-	119,718
<u>\$ 89,693</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 225,353</u>	<u>\$ 359,132</u>
\$ 23,485	\$ -	\$ -	\$ -	\$ 64,170
-	-	-	-	18,997
36,339	-	-	-	36,339
-	-	-	-	26,564
<u>59,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,070</u>
-	-	-	225,353	225,353
29,869	1,086	-	-	(12,291)
<u>29,869</u>	<u>1,086</u>	<u>-</u>	<u>225,353</u>	<u>213,062</u>
<u>\$ 89,693</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 225,353</u>	<u>\$ 359,132</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2006

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property	MSHDA Homeowner
REVENUES:				
Federal sources	\$ -	\$ -	\$ 173,465	\$ -
State sources	122,030	-	-	-
Local sources	-	-	46,776	-
Taxes	-	-	-	-
Charges for services	-	148,841	-	-
Lease income	-	-	-	-
Interest income	-	-	-	-
Miscellaneous	-	3,275	-	-
Total revenues	\$ 122,030	\$ 152,116	\$ 220,241	\$ -
EXPENDITURES:				
Public health and safety	\$ -	\$ -	\$ 201,244	\$ -
Cemetery	-	-	-	-
General public works	-	349,174	-	-
Street system	122,030	-	-	-
Community development	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	122,030	349,174	201,244	-
Excess revenues (expenditures)	-	(197,058)	18,997	-
OTHER FINANCING SOURCES (USES):				
Transfers in	-	150,721	-	-
Transfers out	-	-	(18,997)	-
Total other financing sources (uses)	-	150,721	(18,997)	-
Net changes in fund balances	-	(46,337)	-	-
Fund balances - beginning	-	-	-	3,091
Fund balances - ending	\$ -	\$ (46,337)	\$ -	\$ 3,091

See accompanying notes to financial statements.

Special Revenue	Debt Service Funds		Permanent Fund	Total Nonmajor Governmental Funds
Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ 173,465
-	-	-	-	122,030
17,194	-	-	1,570	65,540
286,810	-	-	-	286,810
-	-	-	-	148,841
-	104,770	-	-	104,770
1,446	-	-	3,655	5,101
470	-	-	-	3,745
<u>\$ 305,920</u>	<u>\$ 104,770</u>	<u>\$ -</u>	<u>\$ 5,225</u>	<u>\$ 910,302</u>
\$ -	\$ -	\$ -	\$ -	\$ 201,244
-	-	-	265	265
-	-	-	-	349,174
-	-	-	-	122,030
200,262	-	-	-	200,262
-	60,000	85,000	-	145,000
-	44,495	30,890	-	75,385
<u>200,262</u>	<u>104,495</u>	<u>115,890</u>	<u>265</u>	<u>1,093,360</u>
<u>105,658</u>	<u>275</u>	<u>(115,890)</u>	<u>4,960</u>	<u>(183,058)</u>
-	-	115,890	-	266,611
(210,690)	-	-	(3,655)	(233,342)
<u>(210,690)</u>	<u>-</u>	<u>115,890</u>	<u>(3,655)</u>	<u>33,269</u>
(105,032)	275	-	1,305	(149,789)
<u>134,901</u>	<u>811</u>	<u>-</u>	<u>224,048</u>	<u>362,851</u>
<u>\$ 29,869</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 225,353</u>	<u>\$ 213,062</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
March 31, 2006

	Economic Development Corporation	Land Development	Total Nonmajor Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ (84,506)	\$ (20,835)	\$ (105,341)
Receivables:			
Notes	16,695	-	16,695
Total current assets	<u>(67,811)</u>	<u>(20,835)</u>	<u>(88,646)</u>
Noncurrent assets:			
Notes receivable	255,834	-	255,834
Capital assets	60,994	563,196	624,190
Less accumulated depreciation	(23,469)	(59,835)	(83,304)
Total noncurrent assets	<u>293,359</u>	<u>503,361</u>	<u>796,720</u>
Total assets	<u>\$ 225,548</u>	<u>\$ 482,526</u>	<u>\$ 708,074</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 143	\$ 20,841	\$ 20,984
Noncurrent liabilities:			
Due to other funds	51,611	44,213	95,824
Total liabilities	<u>\$ 51,754</u>	<u>\$ 65,054</u>	<u>\$ 116,808</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 37,525	\$ 503,361	\$ 540,886
Unrestricted	<u>136,269</u>	<u>(85,889)</u>	<u>50,380</u>
Total net assets	<u>\$ 173,794</u>	<u>\$ 417,472</u>	<u>\$ 591,266</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2006

	Economic Development Corporation	Land Development	Total Nonmajor Enterprise Funds
OPERATING REVENUES:			
Miscellaneous	\$ 9,231	\$ 9,266	\$ 18,497
OPERATING EXPENSES:			
Salaries and fringes	\$ -	\$ 682	\$ 682
Supplies	30	-	30
Contracted services	2,996	10,704	13,700
Rent	77	-	77
Depreciation	1,865	12,075	13,940
Miscellaneous	11,575	-	11,575
Total operating expenses	16,543	23,461	40,004
Operating income (loss)	(7,312)	(14,195)	(21,507)
NONOPERATING REVENUES (EXPENSES):			
Interest income	12,299	186	12,485
Total nonoperating revenue (expense)	12,299	186	12,485
Income (loss) before transfers and contributions	4,987	(14,009)	(9,022)
Transfer in	-	316,515	316,515
Transfer out	(4,800)	(4,800)	(9,600)
Change in net assets	187	297,706	297,893
Total net assets - beginning	173,607	119,766	293,373
Total net assets - ending	\$ 173,794	\$ 417,472	\$ 591,266

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2006

	Economic Development Corporation	Land Development	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 9,231	\$ 9,266	\$ 18,497
Payments to suppliers	(14,880)	(52,385)	(67,265)
Payments for wages and related benefits	-	(682)	(682)
Other receipts (payments)	(70,293)	(316,515)	(386,808)
Net cash provided (used) by operating activities	(75,942)	(360,316)	(436,258)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(4,800)	311,715	306,915
Net cash provided (used) by noncapital financing activities	(4,800)	311,715	306,915
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	-	(14,042)	(14,042)
Sale of fixed assets	-	48,154	48,154
Net cash provided (used) by capital and related financing activities	-	34,112	34,112
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	12,346	186	12,532
Net cash provided (used) by investing activities	12,346	186	12,532
Net increase (decrease) in cash and equivalents	(68,396)	(14,303)	(82,699)
Cash and equivalents, beginning of year	(16,110)	(6,532)	(22,642)
Cash and equivalents, end of year	<u>\$ (84,506)</u>	<u>\$ (20,835)</u>	<u>\$ (105,341)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (7,312)	\$ (14,195)	\$ (21,507)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,865	12,075	13,940
Changes in assets and liabilities:			
(Increase) decrease in receivables	(42,644)	-	(42,644)
Increase (decrease) in accounts payable	(202)	(41,681)	(41,883)
Increase (decrease) in accrued payroll	-	-	-
Increase (decrease) in due to other funds	(27,649)	(316,515)	(344,164)
Net cash provided by operating activities	<u>\$ (75,942)</u>	<u>\$ (360,316)</u>	<u>\$ (436,258)</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2006

ALL UTILITIES:

Population served	5,032
Average number of meters in service	5,385

ELECTRIC UTILITY FUND:

K.W.H. purchased	35,413,044
K.W.H. sold	<u>34,860,642</u>
K.W.H. lost (1.56%)	<u>552,402</u>
Revenue from sales	<u>\$ 2,838,592</u>
Average number of meters	3,219
Estimated street light K.W.H. used	266,000

WATER UTILITY FUND:

Gallons pumped into plant	167,556,800
Gallons used in plant and for system maintenance	<u>8,728,300</u>
Gallons pumped to mains	158,828,500
Gallons sold	<u>135,940,014</u>
Gallons lost (14.41%)	<u>22,888,486</u>
Revenue from sales	<u>\$ 560,640</u>
Average number of meters in service	2,206

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 545,610</u>
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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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Alan M. Stotz, CPA, Principal
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Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA
Sarah Peloza, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members
of the City Commission
City of Gladstone
Gladstone, MI 49837

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated June 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting – In planning and performing our audit, we considered the City of Gladstone, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters – As part of obtaining reasonable assurance about whether the City of Gladstone, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Gladstone, Michigan, in a separate letter dated June 15, 2006.

This report is intended solely for the information and use of management, others within the organization, City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.L.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

June 15, 2006

CITY OF GLADSTONE, MICHIGAN

REPORT TO MANAGEMENT

MARCH 31, 2006



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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REPORT TO MANAGEMENT

To the Honorable Mayor and Members
of the City Commission
City of Gladstone

Audit Committee Communications

We have audited the financial statements of the City of Gladstone, Michigan for the year ended March 31, 2006, and have issued our reports thereon dated June 15, 2006. Professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for with management is responsible.

Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 12, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the City of Gladstone, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Gladstone's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

To the Honorable Mayor and Members
of the City Commission
City of Gladstone
Page 2

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Gladstone, Michigan are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the City of Gladstone, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: the useful lives of fixed assets.

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. A significant audit adjustment may or may not indicate matters that could have a significant effect on the City of Gladstone's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, the audit adjustments made individually and in the aggregate, do not have a significant effect on the City of Gladstone's financial reporting process.

To the Honorable Mayor and Members
of the City Commission
City of Gladstone
Page 3

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Gladstone's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of the City of Gladstone, Michigan for the year ended March 31, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

To the Honorable Mayor and Members
of the City Commission
City of Gladstone
Page 4

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated June 15, 2006, on the financial statements of the City of Gladstone, Michigan.

We have already discussed many of these comments and recommendations with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the City Commission and management of the City of Gladstone and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

June 15, 2006

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2006

Light Deposits

Comment:

During our testing of the light deposit payable, we noted that the general ledger reflects \$2,989 more in light deposits than the utility billing system.

Recommendation:

We recommend that the general ledger and the utility billing system be reconciled on a monthly basis so light deposits payable is accurately reflected in both systems.

Management Response:

The City no longer charges a light deposit and as renters move, this account will be zeroed out.

Utility Receivables

Comment:

We noted that the utility receivable accounts are not being reconciled between the general ledger and the utility billing system.

Recommendation:

We recommend that the general ledger and utility billing system be reconciled on a monthly basis to assure that both systems are properly accounting for the utility accounts receivable.

Management Response:

We have created additional spreadsheets and procedures to address this comment.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2006

Distribution of Real and Personal Property Taxes

Comment:

For the fiscal year ended March 31, 2006, the City only distributed real and personal property taxes to the other taxing units only once per month. The General Property Tax Act states that within ten business days after the first and fifteenth day of each month, local tax collecting units must account for and deliver to the county treasurer and other tax assessing units, the tax collections on hand on the first and fifteenth day of each month.

Recommendation:

Taxes collected by the City should be remitted to the other taxing units as required by the General Property Tax Act.

Management Response:

The City will adhere to the General Property Tax Act to the best of its ability, however, the City feels there are so few delinquencies that it is not feasible to do distributions bi-weekly.

Receipt System

Comment:

We noted receipts for monies received over the counter or through the mail are not always printed. We also noted that when payments are received they are not immediately entered into the receipt system.

Recommendation:

In order to improve internal controls over cash receipting, all monies that are received should be receipted in immediately and a receipt printed and issued, particularly utility receipts which currently are not entered into the system when they are received over the counter. Currently individuals are given a portion of their utility stub back, which is stamped paid. The funds should be receipted in and a receipt issued as proof of payment.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2006

Management Response:

Although the cash receipting software lists all invoices receipted for, the City will print all cash receipts and receipts from payments put in the drop box.

Utility Billing System

Comment:

The following items were noted relating to the utility billing system:

1. Segregation of duties - Currently the utility billing clerk has the ability to make manual adjustments to the utility billing system, generate the billings from the utility billing system, and collect and receipt a large portion of the cash collections relating to utility accounts.
2. Delinquent utility accounts – The treatment of delinquent utility accounts, which are put-off to taxes, is not applied consistently.

Recommendation:

1. Segregation of duties – The City should review the procedures relating to the utility billing function and segregate duties relating to the utility billing system if possible.
2. Delinquent utility accounts – A formal written policy should be established to develop procedures for handling delinquent utility accounts.

Management Response:

1. Segregation of duties – It is not practical to segregate duties at this time based on a limited staff. The City Manager and department supervisors review financial statements monthly.
2. Delinquent utility accounts - The City will develop a formal written policy on handling delinquent utility accounts and will adhere to this policy in the future.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2006

Budget Non-Compliance

Comment:

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

General Fund	\$	205,880
State Trunkline		109,470
Revolving Loan Fund		203
Downtown Development Authority		41,870
MSHDA Rental Property		13,848

- (2) The following funds had deficit unreserved fund balances/unrestricted net assets:

Governmental funds:		
Solid Waste	\$	46,337
Proprietary funds:		
Gladstone Wireless		150,894
Water Utility		126,745
Land Development		85,889
Equipment Fund		271,206

Recommendation:

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations and the City file a deficit elimination plan with the Department of Treasury.

Management Response:

If expenditures exceed budgeted amounts in the future, the budget will be amended prior to the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2006

Duplicate Payment of Invoice

Comment:

During our testing we noted that an invoice in the amount of \$5,267 was paid twice.

Recommendation:

When department heads submit bills for payment they should ensure that the invoice is correct and that it is only paid once.

Management Response:

Department heads will ensure , to the best of their ability, that invoices are only paid once.

Recording of Special Assessments in the General Ledger

Comment:

We noted that accounts receivable for special assessments recorded in some of the funds were not recorded for the entire amount due to the City.

Recommendation:

We recommend that as soon as the City Commission approves a special assessment, the total amount of the assessment should be recorded in the general ledger of the appropriate fund as an accounts receivable, and as payments are made they should reduce the accounts receivable. A subsidiary ledger should be maintained showing the outstanding balance of each special assessment by property owner and the subsidiary ledger should be reconciled to the general ledger.

Management Response:

Staff will follow the recommendation and record special assessments immediately after the City Commission approves them.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2006

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

Comment:

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Gladstone being required to implement the Statement for the year ended March 31, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning April 1, 2009, the City will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Council as well as City Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.